



**Billing Code: 4810-AM-P**

## **BUREAU OF CONSUMER FINANCIAL PROTECTION**

### **12 CFR Part 1026**

#### **Truth in Lending (Regulation Z)**

**AGENCY:** Bureau of Consumer Financial Protection.

**ACTION:** Final rule; official interpretation.

**SUMMARY:** The Bureau of Consumer Financial Protection (Bureau) is publishing this final rule amending the regulatory text and official interpretations for Regulation Z, which implements the Truth in Lending Act (TILA). The Bureau is required to calculate annually the dollar amounts for several provisions in Regulation Z; this final rule reviews the dollar amounts for provisions implementing amendments to TILA under the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act) and the Home Ownership and Equity Protection Act of 1994 (HOEPA). These amounts are adjusted, where appropriate, based on the annual percentage change reflected in the Consumer Price Index in effect on June 1, 2013. The minimum interest charge disclosure thresholds will remain unchanged in 2014. The adjusted dollar amount for the penalty fees safe harbor in 2014 is \$26 for a first late payment and \$37 for each subsequent violation within the following six months. The adjusted statutory fee trigger for HOEPA loans is \$632, effective January 1, 2014.

**DATES:** This final rule is effective January 1, 2014.

**FOR FURTHER INFORMATION CONTACT:** David Friend, Counsel, Office of Regulations, Consumer Financial Protection Bureau, 1700 G Street NW, Washington, DC, 20552 at (202) 435-7700.

## **SUPPLEMENTARY INFORMATION:**

### **I. Background**

#### *A. CARD Act Annual Adjustments*

In 2010, the Board of Governors of the Federal Reserve System (Board) published amendments to Regulation Z implementing the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act), which amended the Truth in Lending Act (TILA). Public Law 111-24, 123 Stat. 1734 (2009). Pursuant to the CARD Act, the Board's Regulation Z amendments established new requirements with respect to open-end consumer credit plans, including requirements for the disclosure of minimum interest charge amounts and the establishment of a safe harbor provision allowing card issuers to impose penalty fees for violating account terms without violating the restrictions on penalty fees established by the CARD Act. *See* 75 FR 7658, 7799 (Feb. 22, 2010) and 75 FR 37526, 37527 (June 29, 2010). The final rule issued by the Board required that these thresholds be calculated annually using the Consumer Price Index as published by the Bureau of Labor Statistics.<sup>1</sup>

#### *Minimum Interest Charge Disclosure Thresholds*

Sections 1026.6(b)(2)(iii) and 1026.60(b)(3) of the Bureau's Regulation Z provide that the minimum interest charge thresholds will be re-calculated annually using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) that was in effect on the preceding June 1. When the cumulative change in the adjusted minimum

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<sup>1</sup> The responsibility for promulgating rules under TILA was transferred from the Board to the Bureau effective July 21, 2011. The Bureau restated Regulation Z on December 22, 2011, and the Bureau's Regulation Z is located at 12 CFR part 1026. 76 FR 79768 (Dec. 22, 2011). *See* sections 1061 and 1100A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), Pub. L. 11-203, 124 Stat. 1376 (2010). Section 1029 of the Dodd-Frank Act excludes from this transfer of authority, subject to certain exceptions, any rulemaking authority over a motor vehicle dealer that is predominantly engaged in the sale and servicing of motor vehicles, the leasing and servicing of motor vehicles, or both.

value derived from applying the annual CPI-W level to the current amounts in §§ 1026.6(b)(2)(iii) and 1026.60(b)(3) has risen by a whole dollar, the minimum interest charge amounts set forth in the regulation will be increased by \$1.00. The Bureau of Labor Statistics publishes consumer-based indices monthly, but does not report a CPI change on June 1; adjustments are reported in the middle of the month. The CPI-W is a subset of the CPI-U index (based on all urban consumers) and represents approximately 28 percent of the U.S. population. The adjustment reflects a 0.9 percent increase in the CPI-W from April 2012 to April 2013 and is rounded to the nearest \$1 increment. This increase in the CPI-W when applied to the current amounts in §§ 1026.6(b)(2)(iii) and 1026.60(b)(3) did not trigger an increase in the minimum interest charge threshold of at least \$1.00, and therefore the Bureau is not amending §§ 1026.6(b)(2)(iii) and 1026.60(b)(3).

#### *Penalty Fees Safe Harbor*

The Bureau's Regulation Z provides that the safe harbor provision which establishes the permissible fee thresholds in § 1026.52(b)(1)(ii)(A) and (B) will be recalculated annually using the CPI-W that was in effect on the preceding June 1. This adjustment is based on the CPI-W index in effect on June 1, 2013, which was reported on May 16, 2013. The Bureau of Labor Statistics publishes consumer-based indices monthly, but does not report a CPI change on June 1; adjustments are reported in the middle of the month. The CPI-W is a subset of the CPI-U index (based on all urban consumers) and represents approximately 28 percent of the U.S. population. When the cumulative change in the adjusted minimum value derived from applying the annual CPI-W level to the current amounts in § 1026.52(b)(1)(ii)(A) and (B) has risen by a whole

dollar, those amounts will be increased by \$1.00. Similarly, when the cumulative change in the adjusted minimum value derived from applying the annual CPI-W level to the current amounts in § 1026.52(b)(1)(ii)(A) and (B) has decreased by a whole dollar, those amounts will be decreased by \$1.00. *See* comment 52(b)(1)(ii)-2. The adjustment to the permissible fee thresholds being adopted here reflects a 0.9 percent increase in the CPI-W from April 2012 to April 2013 and is rounded to the nearest \$1 increment.

*B. HOEPA Annual Threshold Adjustment*

In 1995, the Board of Governors of the Federal Reserve System (Board) published amendments to Regulation Z implementing the Home Ownership and Equity Protection Act of 1994 (HOEPA), which amended TILA and was contained in the Riegle Community Development and Regulatory Improvement Act of 1994, Public Law 103-325, 108 Stat. 2160. These amendments impose substantive limitations and additional disclosure requirements on certain closed-end home mortgage loans bearing annual percentage rates or points and fees above a certain percentage or amount. As enacted, the statute requires creditors to comply with the HOEPA requirements if the total points and fees payable by the consumer at consummation exceed the greater of \$400 or 8 percent of the total loan amount. TILA and Regulation Z provide that the \$400 figure shall be adjusted annually on January 1 by the annual percentage change in the Consumer Price Index (CPI) that was reported on the preceding June 1. 15 U.S.C. 1602(bb)(3); 12 CFR 1026.32(a)(1)(ii).

The Bureau uses the Consumer Price Index for All Urban Consumers (CPI-U) index, as published by the Bureau of Labor Statistics (BLS), as the index for adjusting the \$400 figure. The CPI-U is based on all urban consumers and represents approximately 88

percent of the U.S. population, The BLS publishes consumer-based indices monthly, but does not report a CPI change on June 1; adjustments are reported in the middle of each month. The adjustment to the CPI-U index reported by BLS on May 16, 2013, was the CPI-U index in effect on June 1, and reflects the percentage change from April 2012 to April 2013. The adjustment to the \$400 figure being adopted here reflects a 1.1 percent increase in the CPI-U index for this period and is rounded to whole dollars for ease of compliance.

The fee trigger being adjusted in this *Federal Register* notice pursuant to TILA section 103(bb) is used in determining whether a loan is covered by § 1026.32. Such loans have generally been known as “HOEPA loans.” On January 10, 2013, the Bureau issued a final rule pursuant to, *inter alia*, section 1431 of the Dodd-Frank Act, which revised the statutory fee trigger for HOEPA loans. 78 FR 6856 (Jan. 31, 2013) (2013 HOEPA Final Rule). The amendments adopted in the 2013 HOEPA Final Rule, including the revised fee trigger, apply to loans for which the creditor received an application on or after January 10, 2014. *Id.* at 6939. The Bureau is mindful of the need to coordinate implementation of this final rule with the effective date of the January 10<sup>th</sup> final rule adopting revisions to the HOEPA fee trigger. Accordingly, the adjustment to the fee trigger that is being published today will become effective on January 1, 2014, will apply to loans consummated on or after January 1, 2014, and will apply until the revised HOEPA fee trigger takes effect. Pursuant to section 1431 of the Dodd Frank Act and § 1026.32(a)(1)(ii) as amended by the 2013 HOEPA Final Rule, implementation of the 2013 HOEPA Final Rule will change the HOEPA fee trigger to \$1,000, which will be

adjusted annually thereafter in accordance with § 1026.32(a)(1)(ii) as amended by the 2013 HOEPA Final Rule. *Id.* at 6968.

## **II. Adjustment and Commentary Revision**

### *A. CARD Act Annual Adjustments*

#### *Minimum Interest Charge Disclosure Thresholds—§§ 1026.6(b)(1)(ii) and 1026.60(b)(3)*

The minimum interest charge amounts for §§ 1026.6(b)(2)(iii) and 1026.60(b)(3) will remain unchanged for the year 2014. Accordingly, the Bureau is not amending these sections.

#### *Penalty Fees Safe Harbor—§ 1026.52(b)(1)(ii)(A) and (B)*

Effective January 1, 2014, the permissible fee threshold amounts are \$26 for § 1026.52(b)(1)(ii)(A) and \$37 for § 1026.52(b)(1)(ii)(B). Accordingly, the Bureau is revising § 1026.52(b)(1)(ii)(A) and (B) to state that the fee imposed for violating the terms or other requirements of an account shall not exceed \$26 and \$37 respectively. The Bureau is also adopting new comment 52(b)(1)(ii)-2.i to preserve a list of the historical thresholds for this provision.

### *B. HOEPA Annual Threshold Adjustment—Comment 32(a)(1)(ii)-2*

Effective January 1, 2014, for purposes of determining whether a consumer credit transaction that is secured by a consumer's principal dwelling and is not otherwise exempt is covered by § 1026.32 (based on the total points and fees payable by the consumer at consummation), a loan is covered if the points and fees exceed \$632 or 8 percent of the total loan amount, whichever is greater. Comment 32(a)(1)(ii)-2, which lists the adjustments for each year, is amended to reflect the new dollar threshold amount for 2014.

### **III. Administrative Law Matters**

#### *A. Administrative Procedure Act*

Under the Administrative Procedure Act, notice and opportunity for public comment are not required if the Bureau finds that notice and public comment are impracticable, unnecessary, or contrary to the public interest. 5 U.S.C. 553(b). The amendments in this notice are technical and non-discretionary, and they apply the method previously established in the agency's regulations for determining adjustments to the thresholds. For these reasons, the Bureau has determined that publishing a notice of proposed rulemaking and providing opportunity for public comment are unnecessary. Therefore, the amendments are adopted in final form.

Section 553(d) of the Administrative Procedure Act generally requires publication of a final rule not less than 30 days before its effective date, except for (1) a substantive rule which grants or recognizes an exemption or relieves a restriction; (2) interpretive rules and statements of policy; or (3) as otherwise provided by the agency for good cause found and published with the rule. 5 U.S.C. 553(d). At a minimum, the Bureau believes the amendments fall under the third exception to section 553(d). The Bureau finds that there is good cause to make the amendments effective on January 1, 2014. The amendments in this notice are technical and non-discretionary, and they apply the method previously established in the agency's regulations for determining adjustments to the thresholds.

#### *B. Regulatory Flexibility Act*

Because no notice of proposed rulemaking is required, the Regulatory Flexibility Act does not require an initial or final regulatory flexibility analysis. 5 U.S.C. 603(a), 604(a).

*C. Paperwork Reduction Act*

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3506; 5 CFR 1320), the agency reviewed this final rule. No collections of information pursuant to the Paperwork Reduction Act are contained in the final rule.

**List of Subjects in 12 CFR Part 1026**

Advertising, Consumer protection, Credit, Credit unions, Mortgages, National banks, Reporting and recordkeeping requirements, Savings associations, Truth in lending.

**Authority and Issuance**

For the reasons set forth in the preamble, the Bureau amends Regulation Z, 12 CFR part 1026, as set forth below:

**PART 1026 — TRUTH IN LENDING (REGULATION Z)**

1. The authority citation for part 1026 continues to read as follows:

**Authority:** 12 U.S.C. 2601, 2603-2605, 2607, 2609, 2617, 5511, 5512, 5532, 5581; 15 U.S.C. 1601 *et seq.*

**Subpart G—Special Rules Applicable to Credit Card Accounts and Open End**

**Credit Offered to College Students**

2. Section 1026.52(b)(1)(ii)(A) and (B) is revised to read as follows:

**§ 1026.52—Limitations on fees.**

\* \* \* \* \*

(b \* \* \*

(1) \* \* \*

(ii) \* \* \*

(A) \$26;



(B) \$37 if the card issuer previously imposed a fee pursuant to paragraph (b)(1)(ii)(A) of this section for a violation of the same type that occurred during the same billing cycle or one of the next six billing cycles; or

\* \* \* \* \*

3. In Supplement I to part 1026—Official Interpretations:

A. Under *Section 1026.32—Requirements for Certain Closed-End Home Mortgages, 32(a) Coverage, Paragraph 32(a)(1)(ii)*, paragraph 2.xix is added.

B. Under *Section 1026.52—Limitations on Fees, 52(b) Limitations on Penalty Fees, 52(b)(1)(ii) Safe Harbors*, subheading i and paragraph 2.i.A are added.

The additions read as follows:

**SUPPLEMENT I TO PART 1026—OFFICIAL INTERPRETATIONS**

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**SUBPART E—SPECIAL RULES FOR CERTAIN HOME MORTGAGE TRANSACTIONS**

\* \* \* \* \*

*Section 1026.32—Requirements for Certain Closed-End Home Mortgages*

*32(a) Coverage.*

\* \* \* \* \*

*Paragraph 32(a)(1)(ii).*

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*2. Annual adjustment of \$400 amount. \* \* \**

xix. For 2014, \$632, reflecting a 1.1 percent increase in the CPI-U from June 2012 to June 2013, rounded to the nearest whole dollar.

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SUBPART G—SPECIAL RULES APPLICABLE TO CREDIT CARD ACCOUNTS AND OPEN-END  
CREDIT OFFERED TO COLLEGE STUDENTS

*Section 1026.52—Limitations on Fees*

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52(b)(1)(ii) Safe harbors

\* \* \* \* \*

*2. Adjustments based on Consumer Price Index.* \* \* \*

*i. Historical thresholds.*

A. Card issuers were permitted to impose a fee for violating the terms of an agreement if the fee did not exceed \$25 under § 1026.52(b)(1)(ii)(A) and \$35 under § 1026.52(b)(1)(ii)(B), through December 31, 2013.

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**Richard Cordray,**

*Director, Bureau of Consumer Financial Protection.*

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